

Office of the Assistant to the Director



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Statement

by

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Director of Central Intelligence

before

House of Representatives

Select Committee on Intelligence

August 6, 1975

Mr. Chairman:

At your request, I am here today to discuss the Central Intelligence Agency itself, with particular emphasis on its budget and financial procedures. The Agency, of course, rests on the statutes passed by the Congress in the National Security Act of 1947 and the Central Intelligence Agency Act of 1949.¹

The National Security Act of 1947 established the National Security Council and, under it, the Central Intelligence Agency. The Agency's mission was described, under the direction of the National Security Council, in the following terms: to advise the Council; to make recommendations for the coordination of the intelligence activities of the departments and agencies; correlation, evaluation, and dissemination of intelligence; performance of services of common concern centrally; and, in what was deliberately a broad grant of authority, the performance of "such other functions and duties related to intelligence affecting the

¹ There have been certain other specific statutes covering CIA, such as the CIA Retirement Act of 1964 and, of course, the amendment to the Foreign Assistance Act passed in December 1974, with respect to CIA activities other than intelligence gathering. In an amendment to the Law Enforcement Assistance Act passed in 1973, specific provision was made that the Central Intelligence Agency not participate in any LEAA assistance to local law enforcement bodies in the United States.

national security as the National Security Council may from time to time direct." The Act specifically provided that the Agency have no police, subpoena or law enforcement powers or internal security functions. The departments and other agencies of the Government, however, would continue to collect, evaluate, correlate and disseminate departmental intelligence, which should be open to the inspection of the Director of the CIA.

CIA was conceived as a central agency drawing upon the other members of the Intelligence Community, but having a unique capability to perform certain of the missions expected. Its predecessor, the Office of Strategic Services during World War II, was the model upon which it developed, and it included intelligence collection, intelligence analysis, intelligence production, and covert activities in the political and paramilitary fields. The techniques of secret operations and on many occasions the specific individuals and organizations with whom such operations must be conducted are the same as those which provide secret intelligence. In the earliest years of CIA, there was an attempt to conduct these in a separate organizational compartment from the other work of CIA, but General Walter B. Smith found that this produced friction, duplication

and inefficiency, so he merged the functions of collection with these other "functions and duties."

Mr. Chairman, this chart outlines the organization of CIA. I believe most of the titles are self-explanatory. You will note that the two staffs that support the Director's Community responsibilities are separate from the rest of CIA. There is obviously a great deal of contact and information flowing from CIA to these staffs, but they are separate entities. In particular, we have made an effort to include within these community-oriented staffs representatives of the other agencies in the Intelligence Community.

The major work of the CIA is carried out in the four main Directorates. I will be discussing their work with you in great detail in executive session, including the numbers of personnel and the specific programs. In line with my comments on Monday, I believe it important that these matters be discussed in public session in broad and general terms in order to give public awareness of our activities. In order, their main functions are the analysis and production of finished intelligence, the work of the Directorate of Intelligence; the conduct of our clandestine overseas operations and the supporting structures necessary in

the United States, in the Directorate of Operations; a special Directorate of Science and Technology which combines the analysis of foreign information in these important fields with research and development of new technical systems for acquiring or analyzing information; and the last, the Directorate of Administration, with the normal administrative services of communications, personnel, finance, logistics, etc. Many of these "normal" aspects of administration, of course, need to be done in somewhat special ways in support of the clandestine operations and requirements of this Agency.

Mr. Chairman, this chart outlines the various functions carried out in CIA. Intelligence is by far our major function these days, and you can see that it is broken down into the collection of the types of information noted, the processing of this information both technically and intellectually by our corps of analysts, and the final production of finished intelligence, i.e., the product which goes to the customer. Whereas most of our final product does depend upon classified sources and consequently is classified, we have made an effort to publish in unclassified form such material as we could. I have with me today a collection of various of our unclassified publications for your inspection and possible interest. These formal publications, and the much larger

number of classified ones which I will show you separately, are supplemented by the briefings we provide within the Executive Branch and to a number of the Committees of the Congress. In these briefings, we do not discuss the details of our operations or the specifics of our sources, but we do use the most sensitive intelligence in order to draw together all information available to the United States Government on some foreign question. This was the original concept of central intelligence, and it has worked with great effectiveness in practice. It means, however, that when you examine one of our publications, and especially our unclassified publications, the information therein also depends upon the other military and civilian agencies contributing to our total knowledge. It would be misleading to indicate that the intelligence result available to us depended only on the investment made in the CIA itself. The management functions of CIA are those normal to any large organization, supplemented by CIA's and my role in the Community as a whole. CIA also carries out centrally certain services of common concern to the Community where it is more efficient to conduct these under one roof than to establish duplicative organizations in each member agency.

The covert action mission has been mentioned before, of course. Mr. Chairman, CIA was heavily engaged in this activity during the days of massive confrontation of the 1950's and the period of counterinsurgency in the 1960's. In recent years, however, the change in the world situation has been such that CIA's activities in this field have dropped to a very low percentage of our efforts. I do believe it important, however, Mr. Chairman, that the United States retain this potential, as I could easily envisage further changes in the world situation which could once again make it important that our Government be able to help some group in a foreign land struggling against a hostile or extremist group there, which could threaten the safety and well being of the United States; for example, through terrorism or even nuclear proliferation. I believe it important that our Government in such cases have, as I have stated before, some option between a diplomatic protest and sending the Marines.

Mr. Chairman, the CIA has been the target of a veritable torrent of sensational charges. This is not solely a recent phenomenon, although it certainly has enormously increased in these past few months. The Rockefeller Commission examined one of these areas, i.e., whether the CIA was engaged in a "massive illegal domestic intelligence operation." I would respectfully refer you to page 10 of that Report for its overall conclusions. The Commission stated that: "A detailed analysis of the facts has convinced the Commission that the great majority of the CIA's domestic activities comply with its statutory authority. Nevertheless, over the 28 years of its history, the CIA has engaged in some activities that should be criticized and not permitted to happen again." The Commission said that some of these activities were initiated or ordered by Presidents, either directly or indirectly, some fell within doubtful areas, and some were plainly unlawful. The Commission noted that the Agency's own recent actions have gone far to terminate the activities upon which its investigation was focused.

I think this conclusion fairly states the true situation with respect to the Agency. It has indeed done some things over its history that it should not have done and that under current guidelines it will not repeat. Mr. Chairman, in a community the size of CIA, I believe it highly likely that a number of wrong things would be done over 28 years.

When one adds the enormous challenges given to CIA, the climate of opinion of the country during past periods, and the secrecy within which CIA's activities must be conducted, I believe that the instances of wrongful action were truly few and far between, both in the domestic field and in the other areas of charges. That they were not more is due, I believe, to the fundamental integrity and loyalty to American principles of the employees of CIA over these years. These employees have worked with little or no applause and under a great number of sensational attacks; they have worked in danger, on intellectually difficult problems, and at the leading edge of technology. CIA personnel have invented new ways of obtaining intelligence. They have boldly and independently challenged interpretations of foreign events and weapon systems by other departments. They have conceived and executed many quiet, modest and effective actions in support of U.S. policy throughout the globe. They are proud of their contribution to their country, they seek anonymity rather than public appreciation, but they deserve the country's thanks rather than the abuse they are receiving today. I believe your investigation, Mr. Chairman, will satisfy you that this is so and that CIA's positive accomplishments have been obtained with great efficiency from modest investments. I would be disingenuous to say that I welcome this process, but I do say that under our Constitution, we will work constructively with you to show both the good and the bad.

CIA BUDGET POLICIES AND PROCEDURES

The CIA has duties, responsibilities and authorities that differ in a number of ways from other US Government agencies, Mr. Chairman, and our financial procedures for dealing with the outside world are unusual. But however unconventional and secret our activities may be, we are very conventional in our internal budgetary practices and our financial controls. I think you will find that many of the details I am about to give you could as well describe any other Federal agency or department-- although I am inclined to believe that we may be somewhat more conscientious about money matters than the average.

Our CIA budget system closely parallels that of all parts of the Federal Government. For any one fiscal year, planning, budgeting, approvals, appropriations and execution extend over a three-year period. At any particular moment, we are therefore dealing with the current year, the upcoming Budget Year, and the subsequent Program Year. Our programs are developed internally, examined by OMB, submitted to the President for his decisions, and then submitted to Congress, where they are reviewed (and often cut) by the designated subcommittees of the Appropriations Committees in both House and Senate.

PROGRAM PREPARATION

The budget cycle in CIA begins in January with the issuance by the Comptroller of the Program Call, calling for estimates of resources to be required during the fiscal year beginning 18 months hence

and operating plans for the fiscal year beginning 6 months hence.

When the new fiscal year goes into effect, these lead times will extend to 21 and 9 months respectively. In January 1975, for example, a call was issued for program plans for fiscal year 1977 and operating plans (based on the previously-prepared program plan) for fiscal year 1976.

The Program Call goes from the Comptroller to the Deputy Directors. They distribute it to subordinate echelons with such supplementary guidance and instructions as they deem appropriate and establish schedules for the submission of data to allow time for their review and for compilation of an aggregate presentation to be submitted to the Comptroller. During February, March, and April program managers revise their previous estimates for the fiscal year about to begin and develop preliminary estimates for the fiscal year following, on the basis of discussions with other interested Agency components and Community elements. Entries into the computer data base are made during this time by components throughout the Agency. The computers produce printouts which array the data for the current year and the next two years for review. I have with me two Agency documents that will give you some insight into the processes involved. One is a training manual, which deals with a fictitious office, that explains budget preparation. The other describes the computerized financial resources system.

Computer programs are submitted in May to the Deputy Directors, who review the requests of their subordinate units and conducts "hearings" with program managers to validate the estimates. This permits each

Deputy Director to develop an aggregate program which he can support and defend. After this review process has been completed, the computer data base is revised to reflect the Deputy Director's decisions. The aggregate program for the Directorate is compiled and submitted to the Comptroller early in June for the Program Review.

PROGRAM REVIEW

The smallest unit in our computerized accounting system is the FAN (financial analysis number) account. There currently are about 2,100 FAN accounts, established to insure availability of planning and control data for management. For in-depth analysis by upper-level management, however, we look not at FAN accounts but at the next higher level of aggregation--Resource Packages, which currently number about 275.

The Resource Package is the central element of the internal CIA resource allocation system. Each Resource Package is a unit of activity to which resources are assigned for the achievement of a particular purpose or set of integrally related purposes. A Resource Package may be an organizational element, an operational activity, a project, a function or a group of related functions. It is chosen so as to give us the most meaningful way of examining the package, its activities, and its resource requirements.

For the Program Review, components provide a brief summary description of each Resource Package, followed by descriptions of major activities within the package, identification of major products and services, and major consumers. Each package submission also includes an evaluation of the accomplishment of each activity in the package through the previous year.

Evaluations are required to relate accomplishments to objectives and, to the extent practical, to the resources assigned. Disappointments, failures, or shortfalls and corrective actions taken or to be taken are described, as well as notable successes achieved. Reasons for year to year differences are spelled out, and any resource implications for the future which will follow from program decisions are identified.

The computerized accounting system arrays the financial data on all Resource Packages and summarizes it in three different ways:

- Organizationally. By Office, Division or Staff and by the four Directorates which are our major subelements.

- Functionally. By the nature of the activity--for example, clandestine collection, overt collection, information processing, production of finished intelligence, and communications.

- and by "object classes" similar to those used throughout the Government to designate salaries, fringe benefits, travel, utilities, and so forth.

The Comptroller reviews the personnel positions and dollars requested for each Resource Package, considering the functions performed and projected in relation to past performance and to relative importance as a part of the broader Directorate and Agency programs. The Agency program is then compiled as a package-by-package summary that includes both the positions, and dollars requested by the components and the positions and dollars

recommended for each package by the Comptroller. The Comptroller often recommends position and dollar levels lower than requested by the Directorates. The composite program is in book form that this year runs to 201 legal-sized pages including both statistical data and textual treatment of the problems and issues for the two years under discussion. In mid-July, it is presented to the Management Committee which is made up of the Deputy Directors and the heads of Independent Offices reporting directly to me.

The Management Committee reviews and discusses the issues with me, often debating the recommendations of the Comptroller. The Deputy Directors justify and defend their original requests or agree to adjust them in light of overall requirements. Within a day or two after this meeting, I meet with the Comptroller and his staff for a detailed review of the resources requested and recommended. Final decisions are reached during this review and become the Directorate "marks" for the fiscal years under consideration, in the current case FY 1976 and 1977.

The Comptroller immediately prepares a financial guidance letter from me to each of the Deputy Directors. These letters establish the program levels for funds and positions within which the Directorates must operate during the operating year and make plans for the budget year. Usually the appropriation for the operating year and OMB guidance for the program year will not have been received before these letters are issued and the instructions have to be qualified accordingly. The obligation rate for the operating year is controlled by the continuing resolution passed by the

Congress until the appropriation has been received, while the levels established in the financial guidance memorandums are used as the basis for preparation of the OMB budget.

In addition to establishing position and fund levels, the financial guidance letters place restrictions upon the authority of the Deputy Directors to reprogram between approved programs; identify certain key programs representing major investments or activities in which I have a particular interest; require supplemental reporting on certain specifically described types of actions; and assign responsibility and due dates for the review and study of organizational or substantive issues. They also contain a paragraph requiring that I be notified in advance of any planned endeavors that carry a significant risk of embarrassment to the Government in general or the Agency in particular. The latter provision was first spelled out in this memorandum, drafted by me when I was Executive-Director, which also details a number of the other general conditions that govern program execution. It replaced an earlier system of levels of approval determined by the amount involved, as in many cases a \$5 thousand expenditure could be more dangerous than a routine \$5 million one.

During August the components revise the computer data base and the supporting narrative as necessary to incorporate the newly-made decisions into the development of budget estimates for the next year. These are

submitted early in September to the Comptroller, who compiles the Agency budget request for submission to OMB by 1 October. The OMB examiner reviews the Agency budget, selecting issues for further examination. During late October and November he conducts detailed hearings on each selected issue with the operating officials of the responsible components. He can and does ask for and receive detailed information on any aspects of our activity which interest him. He then makes his recommendations to his own chain of command, and the review and decision process proceeds through OMB to the President and thence to Congress in the course of the year.

THE OPERATING YEAR

While budgets and program plans for the future are being prepared and reviewed, we are of course also executing a budget already presented to Congress. Each month, the computer system produces reports which show the status of obligations to date and provide projections to year end based on that experience. These reports are reviewed by the Comptroller; after the first quarter of the fiscal year has passed and some trends have been established, the Comptroller and his staff meet monthly with the Deputy Directors and the Director of Finance. At these meetings, the overall status of obligations is compared with pre-planned rates, reasons for unexpected deviations are examined, and potential shortages and surpluses in individual components are identified and discussed.

Throughout the year, new requirements develop--because of a change in world conditions, a new technological development, or a change elsewhere in the US Government such as the passage of new legislation affecting the rules under which Federal Departments and Agencies conduct their programs. Legislative requirements are clearly obligatory; last year, for example, the resource system had to adjust to a limit on travel expenditures that was imposed and subsequently lifted and to the new demands of the Freedom of Information Act. Some world events also present us with unanticipated financial requirements that are nondiscretionary--for example, the turn of events in Southeast Asia last spring. Other new requirements are examined in terms of their consistency with the Agency's charter, their desirability, their priority in competition with other demands, and their urgency. Those which emerge from the examination as the most worthy of immediate consideration on all counts are then looked at in the light of funds that can be made available within the limits of existing policy guidance from the White House and our Congressional oversight committees.

As I am sure you can appreciate, the CIA has somewhat more need for financial flexibility than the average Government agency. We are confronted from time to time with requirements or opportunities of great urgency; if we are offered a document of tremendous intelligence value, we cannot tell the seller to return next year when we have had an opportunity to budget for it.

And we cannot ask the Congress to vote a supplemental appropriation without attracting exactly the sort of unwelcome attention from abroad that we are anxious to avoid. We can sometimes cover relatively small requirements by curtailing expenditures on other, lower priority activities. But our budgets are tightly drawn and leave us relatively little room for maneuver. Thus arrangements have been in existence for many years with OMB and the Appropriations Committees of the Congress to permit us to obtain additional funds for purposes approved at the appropriate policy levels when we believe additional money is necessary and OMB concurs. These are, of course, funds appropriated in accordance with law, and our oversight committees are kept informed on a current basis of all transactions from them.

After each monthly Comptroller's meeting, the Comptroller advises me of the current status of our financial accounts, his recommendations for funding urgent new needs, and the concurring or differing opinions of the four Deputies. I make the final decision on any large sum of money, and that decision is conveyed to the Comptroller and the Deputies and reflected in the financial accounting system.

Our need for financial flexibility is, of course, a reflection of our need for program flexibility. We cannot simply adhere to a rigid plan when the world around us is changing, but neither can we permit ourselves to simply react to events without frequently taking an overall

look at ourselves. Each Directorate therefore conducts program reviews during the year, in which each Deputy sits down with his subordinates and discusses progress to that time and plans for the remainder of the year. The timing of these reviews varies--the Operations Directorate and the Intelligence Directorate have semi-annual reviews, the Science and Technology Directorate follows a quarterly schedule, and the Administration Directorate has its conclave every two months. I am kept informed of all significant developments and proposed changes in approved plans.

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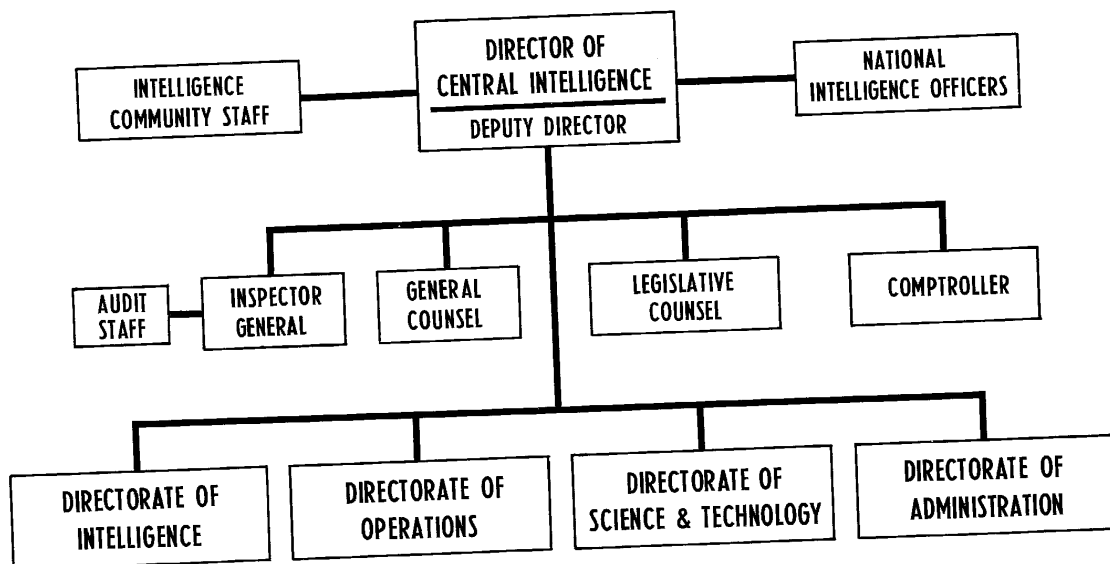
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The Central Intelligence Agency



CIA FUNCTIONS

INTELLIGENCE

COLLECTION

- Overt
- Technical
- Clandestine
- Counter Intelligence

PROCESSING

- Photographic
- Electronic
- Data Storage
- Analysis

PRODUCTION

- Political
- Economic
- Military
- Scientific
- Biographic

SUPPORT

MANAGEMENT
SERVICES
COMMUNICATIONS

COVERT ACTION

POLITICAL
PARAMILITARY